

VZCZCXRO5150
RR RUEHBC RUEHDA RUEHDH RUEHKUK
DE RUEHGB #1882/02 1931503
ZNR UUUUU ZZH
R 121503Z JUL 09 ZDK
FM AMEMBASSY BAGHDAD
TO RUEHC/SECSTATE WASHDC 3895
INFO RUCNRAQ/IRAQ COLLECTIVE

UNCLAS SECTION 02 OF 03 BAGHDAD 001882

SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [ETRD](#) [EAGR](#) [IZ](#) [TU](#) [IR](#) [EAID](#) [PGOV](#)

SUBJECT: RRT ERBIL: FDI DOES NOT MEET KRG EXPECTATIONS

* Missing Section 001 *

BAGHDAD 00001882 002 OF 003

and that entrenched bureaucracy often impedes delivery of the law's promises. Ameen sometimes spends months shuttling paper to the various officials who have to sign off on a project before it can be licensed, and says that many potential investors do not want to waste time working their way through this convoluted process. He says that poor coordination within the KRG further complicates the licensing process. For instance, the investment law is able to offer investors freehold land ownership because the KRG Ministry of Municipalities is the regional "landowner" and can allocate land in accordance with the KRG's priorities. But agricultural land is specifically managed by the KRG Ministry of Agriculture, which has recently made the decision to grant ownership of the land to the Kurdistan farmers who have been working it for generations. (Comment: Prior to this decision, land was farmed on a multi-year, renewable lease. End Comment) Once the land no longer belongs to the KRG, the BoI no longer has the authority to unilaterally grant that land to an agricultural investment project. It must buy the land from the farmer on behalf of the investor, which is time consuming. Because of such bureaucratic delays, investors often choose to circumvent the BoI and work directly with specific line ministries, or to work with local partners who they believe will navigate the process more quickly using their personal connections.

16. (U) KRG officials and Kurdistan businessmen acknowledge other challenges, including:

17. (U) Lack of Infrastructure: The KRG lacks a network of modern roads to connect the three provinces of the KR, and to connect investors to potential areas for development, such as touristic sites in rural, mountainous areas. 24/7 electricity is not available and both businesses and homes rely on generators for large portions of the day. "No one is going to open a factory in a place where they have to buy diesel fuel everyday just to guarantee the electricity with which to operate," said the Kurdistan owner of an import company in Dohuk.

18. (U) Lack of Banking and Insurance Services: KRG officials and local businessmen also acknowledge that a weak regulatory environment and the lack of modern banking systems undermine investor confidence, as do minimal insurance services. Ayad Ahmed, Chairman of the Dohuk Chamber of Commerce, acknowledged that weak local banking system (in which even Kurdistanis have little faith) is compounded by the lack of internationally-recognized banks. "Our people do not trust or use the local banks, but we do not have good alternatives. We are a cash economy, but major investors do not deal in cash." Though insurance is available through a few foreign brokers, it is more expensive to purchase through a reinsurer than it is to buy locally. One of these foreign brokers says that until the KRG implements a law that requires insurance, the market will not produce enough demand to support a viable local insurance market (reftel).

¶9. (U) Lack of Skills: BoI Chairman Muharram recognizes that a dearth of skilled labor deters potential investors. Many investors seeking industrial projects - such as factories - are discouraged by the lack of qualified employees. Comment: The KRG investment law does permit foreign investors to import labor, if there are no qualified Iraqis to fill the position.) Dr. Asmat Khalid, President of the University of Dohuk, attributes this lack to the KRG's failure to balance its emphasis on tertiary academic education with the Region's need for vocational training. Furthermore, Chamber of Qthe Region's need for vocational training. Furthermore, Chamber of Commerce Chairman Ahmed says, most young people aspire to government jobs, not the private sector. "They have been taught since they were young people to study hard and get nice government jobs. That is all that they know."

¶10. (U) A Limited Consumer Market: The Kurdistan Region consumer market is small. While the KR purports to be the "gateway to Iraq," there are relatively few instances of companies successfully establishing themselves elsewhere in Iraq based on their start in the KR. In fact, many firms who have chosen to work in the KR have experienced direct and indirect resistance from GOI institutions regarding the commercial engagement strategies in Iraq as a whole.

¶11. (U) Lack of Vision: Muharram acknowledges the KRG's lack of a strategic plan for the type of FDI that it would like to attract. This has led to scattershot investment, rather than a structured, recruitment effort that would build the economy in steps that will support further investment. Muharram believes a better strategy would be for each line ministry to determine and present to the BoI a list of their sectors' developmental gaps. The BoI would then pay for feasibility studies, pre-license projects, and take them abroad for potential investors' consideration. "In this economic crisis and with the lack of knowledge that the investors have of Kurdistan, we cannot just sit in our offices and wait for people to come to us. We must go out with concrete proposals in our hands!"

Foreign Investors Sound Off

¶12. (U) Foreign investors cite additional concerns:

BAGHDAD 00001882 003 OF 003

¶13. (U) Opaque Business Practices and Cronyism: The KRG has yet to adopt a consistently transparent system of contracting, frustrating investors who feel that their bids have not received fair consideration. Some potential investors complain of being "strongly encouraged" to work with Kurdistan (silent) partners in order to gain enough business to become profitable. Some of these Kurdistan partners ask for exorbitant fees (51% of profit earned) in exchange for their services, which may dissuade small-scale investors.

¶14. (U) Variable KRG Support: Still other foreign investors say that the KRG occasionally defaults on the support that it promises to investors. For instance, the KRG promised fertilizer for the private equity group the Marshall Fund to give to Kurdistan farmers who agreed to work with their tomato paste plant in Sulaimaniyah. The KRG failed to deliver the fertilizer, forcing Marshall Fund to purchase fertilizer out of its own budget in order to keep the project on track. While Marshall Fund believes this to be the cost of doing business in a transitional economy and has the operational budget to adapt to such changes, other investors may not.

Seeking Increased American Training and Investment

¶15. (U) Both the KRG and Kurdistan business community are asking for help. BoI Chairman Muharram acknowledges that the KRG lacks the experience in attracting and managing FDI that western, developed economies have, and has requested USG-sponsored training and support for his staff. Similarly, the Chambers of Commerce of all three KR provinces frequently request greater partnership opportunities with American firms. (Comment: Since 2007, the U.S. Foreign Commercial Service has facilitated the travel of over 100 Kurdistan company representatives to trade shows in the U.S. The U.S.-based Enterra

Solutions group has been hired by the KRG to provide training in project planning, project risk management and contract negotiation.)

¶16. (U) COMMENT: The KRG offers attractive terms for foreign investors and has much to show for it. High-rise apartment buildings constructed by foreign companies and luxury imported car dealerships abound in the well-manicured and peaceful streets of the capital cities of the three KR provinces. There is clearly Western interest in the Kurdistan market, and numerous investors have expressed excitement at the possibility of getting in on the ground level in a Region which is just taking off in terms of natural resource exploitation. But until the KRG deals with these impediments, it is unlikely to attract the level of FDI that it needs to generate the jobs and economic stability that come from a strong and diversified private sector. END COMMENT

HILL